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SUBJECT: RE: FOR RELEASE: Chinese engagement in Niger and Potential Areas for Cooperation

REF: EMAIL:RE: FOR RELEASE: CHINESE ENGAGEMENT IN NIGER AND POTENTIAL AREAS FOR COOPERATION

¶1. (SBU) China is building a major portfolio in Niger's resource sectors and will probably replace France as Niger's top foreign investor when projects under construction are fully operational. Chinese investments include oil and gas production, refining, uranium mining, and infrastructure. There are no current examples of U.S.-China collaboration in Niger. On the Nigerien side, the bilateral relationship is managed directly from President Tandja's office, and there is a striking lack of transparency in the terms of investment agreements, most of which have been negotiated without direct involvement of professional staff from the Ministry of Mines and Energy. There is little scope for U.S.-China collaboration when the comparative advantage of the Chinese is their willingness to ignore international standards of transparency and commercial viability.

¶2. (U) China National Petroleum Corporation (CNPC) has a US\$5 billion deal to develop the oil and gas resources of Niger's Agadem block. That concession was negotiated directly with the Government of Niger (GON) after the government rejected a competing offer by the Mobil-Petronas consortium that had done much of the initial exploration. China sealed the deal by agreeing to construct a 20,000 barrel per day petroleum refinery, which was considered a "must have" by President Tandja. (Comment: Economic analysts question the economic viability of the refinery, which will produce far more than Niger's current consumption, because high production and transportation costs will make it uncompetitive to export.) In 2009, China paid a "signing bonus" originally announced as US\$300 million, which helped to boost Niger's 2009 revenue by 26% over the previous year.

¶3. (U) Although the terms of the production sharing agreement are not public, much of the oil production is expected to be exported by pipeline, with additional potential for export of gas when/if the proposed Trans-Sahara gas pipeline is built from Nigeria to Algeria through Niger. The block includes three different fields, Goumeri, Sokor and Agadi, which have total recoverable reserves estimated at 295 million barrels. The Chinese also have exploration rights to two additional blocks, Bilma and Tenere, in the same remote desert region. No detailed information is available about the progress of construction at the Agadem site, but a high volume of container traffic moves along the highway across southern Niger and CNPC has established large staging areas near Diffa, the eastern-most regional capital located near President Tandja's home town.

¶4. (U) The Nigerien company established to own and operate the refinery, Societe de Raffinage de Zinder (SORAZ) is 60% owned by

CNPC and 40% by the GON, but CNPC is covering all project costs until the refinery is commissioned in 2011. Estimated production of 20,000 barrels per day is far in excess of Niger's current consumption of under 3,000 bpd and the refinery is nearly 1,000 km distant from Niger's capital, Niamey. Dagang Surface Construction Company has been awarded the contract to construct the 462 km pipeline to deliver oil from the production area to the refinery.

¶15. (U) China is also the second largest investor in Niger's uranium mining sector. China's state-owned uranium firm, SINO-U, is investing US\$ 300 million to develop a new mine at Azelik, which is due to begin production in late 2010. The Nigerien company formed to build and own the mine, Societe des Mines d'Azelik (SOMINA) is a joint venture established in 2007 by SINO-U (37.2%), the GON (33%), Beijing ZXJOY Invest of China (24.8%), with Trendfield Holdings awarded a 5% stake as promoter of the deal. This 5% holding was subsequently purchased in April 2009 by Korea Resources Corporation (KORES). As part of the agreement, Trendfield will assist KORES with the long-term off-take purchase agreement of 400 tons of uranium annually from the Government of Niger.

¶16. (U)Niger law gives the GON a 10% carried interest in every

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mining project, but allows the GON to invest in order to retain greater percentage of ownership. In 2009, the China Import-Export Bank loaned Niger US\$ 95 million to cover Niger's share of the capital costs of the SOMINA mine, which will produce an estimated 700 tons per year.

¶17. (U)Chinese-funded new infrastructure in Niamey includes a new four-lane bridge across the Niger river that is nearing completion, a large new Embassy compound with housing for all staff, and a separate new Economic and Trade Center. Each of the new Chinese-Nigerien joint ventures is represented by a modern new office building in the capital. Construction by Chinese crews using materials imported from China has limited the benefit to the local economy.

¶18. (U)The oldest Chinese investment in Niger is the textile firm Enitex, which was purchased by private Chinese investors when it was privatized around ten years ago. The company subsequently closed the fabric weaving operation, but has continued printing on cotton fabric imported from China. Enitex products are popular in both domestic and regional markets, but high costs and rigid labor practices constrain profitability.

¶19. (U)For over fifteen years, China has sent medical doctors for one-year rotations at the National Hospital in Niamey and several regional hospitals. A recent initiative to place young Chinese volunteers in Niger has not been as successful; the first group arrived about three months ago, but most are still waiting for an appropriate placement, and the Economic and Trade Office is likely to terminate the program.

¶10. (SBU)On February 11, 2010, Conoff met with the First Secretary at China's newly constructed Economic and Trade Office, an imposing structure on a large compound in central Niamey. He reported that the office is staffed by five Chinese expats, who also live on the compound, and four local staff. Instead of inviting us to see the new facilities, he received us in a small anteroom attached to the guard house. He speaks fluent French and responded cordially to questions, but did not volunteer any information, even that which

is publically available. According to him, the partners are only now discussing how the production will be exported.

¶11. (SBU)President Tandja has been personally involved in building Niger's bilateral relationship with China, his son has managed the investment relationships in his capacity as the commercial counselor in Niger's Embassy in Beijing, and members of the President's family are reputed to benefit financially from the investments. The personal nature of the relationships, the lack of transparency in the terms of investment, and the high probability of corruption make U.S. collaboration in the investment sector highly unlikely.

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